

Legislative Audit Division

State of Montana



Report to the Legislature

March 2003

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2002

Judicial Branch

This report contains seven recommendations for improvement in the branch's operations. Items addressed in the report include:

- ▶ Financial management controls.
- ▶ Compliance with appropriation laws.
- ▶ District court reimbursements.
- ▶ Travel.
- ▶ Proper accounting practices.

Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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James Gillett, Financial-Compliance Audit

March 2003

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Judicial Branch (branch) for the two fiscal years ending June 30, 2002. Included in this report are seven recommendations to the branch concerning financial management controls, compliance with appropriation laws, district court reimbursements, travel, and proper accounting practices. The branch's written response to the audit recommendations is included in the audit report.

We thank the Chief Justice and Judicial Branch personnel for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a stylized flourish at the end.

Scott A. Seacat
Legislative Auditor



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Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2002

Judicial Branch

Members of the audit staff involved in this audit were Laurie Barrett,
John B. Fine, Laura L. Norris, and Sonia Powell.

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Elected and Appointed Officials

Supreme Court			Term <u>Expires</u>
	Karla Gray	Chief Justice	2008
	William Leaphart	Justice	2010
	James C. Nelson	Justice	2004
	Jim Regnier	Justice	2004
	Terry Triewailer	Justice	2006
	Patricia Cotter	Justice	2008
	Jim Rice	Justice	2006
Clerk of Supreme Court	Ed Smith	Clerk of Supreme Court	
Appointed Officials	Richard Lewis	Court Administrator	
	Judith Meadows	State Law Librarian	

For additional information concerning the Judicial Branch programs contact:

Lisa Smith, Administrative Services Director
Montana Supreme Court
PO Box 203002
Helena MT 59620-3002
(406) 444-2621
e-mail: lismith@state.mt.us

Judicial Branch

We performed a financial-compliance audit of the Judicial Branch (branch) for the two fiscal years ended June 30, 2002. We issued a qualified opinion on the branch's financial schedules, which means the reader should use caution when relying on the presented financial information and the supporting data on the state's primary accounting records.

The prior audit contained two recommendations. The branch implemented both recommendations.

This audit contains seven recommendations to the branch regarding financial management controls, compliance with appropriation laws, district court reimbursements, travel, and proper accounting practices.

Recommendation #1

We recommend the branch implement a financial management control structure to assure financial accountability and compliance with state policies and laws..... 6

Branch Response: Concur. See page B-3.

Recommendation #2

We recommend the branch limit charges to restricted appropriations to purposes specified in appropriation laws..... 7

Branch Response: Concur. See page B-4.

Recommendation #3

We recommend the branch implement procedures to ensure vendor payments are made within time limits set by state law. 8

Branch Response: Concur. See page B-4.

Recommendation #4

We recommend the branch implement procedures to ensure compliance with state laws and policies regarding travel..... 8

Branch Response: Concur. See page B-5.

Report Summary

Recommendation #5 We recommend the branch obtain interentity loans as necessary to record expenditures in the proper fund. 9

Branch Response: Concur. See page B-5.

Recommendation #6 We recommend the branch:

A. Ensure costs billed to the federal government are supported by the state's accounting records.

B. Record federal grant activity in the Federal Special Revenue fund as required by state law. 10

Branch Response: Concur. See page B-5.

Recommendation #7 We recommend the branch develop procedures to:

A. Record the financial activity of entities for which it is accountable on the state's accounting records.

B. Ensure activity is recorded in accordance with generally accepted accounting principles.

C. Ensure revenue estimates are reasonable and properly recorded. 12

Branch Response: Concur. See page B-6.

Introduction

Introduction

We performed a financial-compliance audit of the Judicial Branch (branch) for the two fiscal years ended June 30, 2002. The audit objectives were to:

1. Determine the branch's compliance with applicable laws and regulations.
2. Make recommendations for improvements in the branch's management and internal controls.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the financial schedules present fairly the results of operations of the branch for the two fiscal years ended June 30, 2002.

This report contains seven recommendations to the branch. These recommendations address financial management controls, compliance with appropriation laws, district court reimbursements, travel, and proper accounting practices. Other areas of concern not having a significant effect on the successful operations of the branch are not included in this report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

Background

The Constitution of the state of Montana vests the judicial power of the state in a Supreme Court, district courts, justice courts, and such other courts as may be provided by law. The Supreme Court consists of a chief justice and six associate justices and has appellate jurisdiction and limited original jurisdiction. The chief justice is the head of the Supreme Court. The court administrator, appointed by the Supreme Court, serves as its administrative officer. The Supreme Court appoints the law librarian. The librarian develops and maintains the law library collection and administers library services. The Supreme Court has general supervisory control over all other courts and may make rules governing appellate procedure, practice and procedure for all other courts, admission to the bar, and

Introduction

conduct of practicing attorneys. The rules of procedure are subject to disapproval by the legislature in either of the two sessions following promulgation.

Supreme Court justices and district court judges are elected to office in nonpartisan elections and serve eight-year and six-year terms, respectively. Terms of office and the procedure for filling vacancies on the court are established in the Constitution and by statute. The legislature establishes judicial districts and provides for the number of judges in each district. Currently, there are 40 district court judges in 22 judicial districts.

The Clerk of the Supreme Court is elected to a six-year term on a partisan ballot in a statewide election. The clerk keeps the court's records and files, issues writs and certificates, approves bonds, files all papers and transcripts, and performs other duties as required by the court.

For fiscal management purposes, the branch is divided into seven programs with a total authorized full-time equivalent (FTE) staff level of approximately 115 for fiscal year 2001-02. A description of each program follows:

1. The Supreme Court Operations program accounts for the costs of operation of the Supreme Court, which includes special projects related to foster care, district court processes, and court automation projects (41.75 FTE).
2. The Boards and Commissions program accounts for expenditures for the boards and commissions established either by the Constitution, statute, or the Supreme Court. These boards and commissions handle areas such as judicial discipline, rules, admission to the bar, and various other substantive issues to improve and monitor the administration of justice (2.0 FTE).
3. The Law Library program accounts for the operation of the State Law Library. The library is maintained for use by members and staff of the Supreme Court and the legislature, state officers and employees, members of the bar, and the general public (7.5 FTE).

4. During the audit period the District Court Operations program accounted for the payment of salaries, travel, and training expenses for district court judges. As of July 1, 2002, District Court employee salaries and certain operating costs were assumed as part of branch operations (48.5 FTE).
5. The Water Courts Supervision program accounts for expenditures of the water courts. Montana's Water Courts were created to adjudicate claims of existing water rights in Montana and supervise the distribution of water within the four water divisions of the state (11.0 FTE).
6. The Clerk of Court program accounts for the costs of operation of the Clerk of the Supreme Court (4.5 FTE).
7. The District Court Reimbursement program reimburses counties for certain adult criminal case expenses and for certain child abuse and neglect expenses. In fiscal year 2000-01, costs of this program were funded with taxes paid on vehicles. In fiscal year 2001-02, the branch received general fund money to pay for these costs. For more information see note 5 on page A-13. Due to law changes as of July 1, 2002, this is no longer a program (1.0 FTE).

Attached Agencies

The Montana Medical Legal Panel and the Montana Chiropractic Legal Panel are attached to the Supreme Court for administrative purposes only. The Montana Medical Legal Panel was established by the Montana Medical Legal Panel Act, provided for in Title 27, chapter 6, MCA. The Montana Chiropractic Legal Panel was established as a state agency in January 1990, by chapter 262, Laws of 1989. Its duties are set forth in Title 27, chapter 12, MCA. The Legislative Audit Division issued an audit report of the Chiropractic Legal Panel in December 2002 covering financial activity for the two years ended June 30, 2002. The Medical Legal Panel audit report was issued June 2002 for the two years ended December 31, 2001.

The panels review malpractice claims made against medical or chiropractic physicians and health care providers. The panels must hear and make a decision on a claim before the claim can be filed in court. The panels determine if there is substantial evidence the stated act or omission occurred, whether the act or omission

Introduction

constitutes malpractice, and if there is reasonable medical probability of injury because of the act or omission.

District Court Assumption

Session Laws of 2001 made the branch responsible for district courts and expenses associated with them. During the audit period, the branch was working on developing budget projections and policies and procedures to ensure accurate recording of expenses. It was also working on setting up human resources and payroll for approximately 275 newly acquired employees.

Prior Audit Recommendations

Our prior audit report for the two fiscal years ended June 30, 2000, contained two recommendations to the branch. The branch implemented both recommendations.

Findings and Recommendations

Financial Management Controls

Control structures include setting the tone of an organization, identifying risks to achieving objectives and determining how to manage them, applying policies and procedures to ensure management directives are carried out, informing and communicating methods used to record, process, summarize and report an organization's transactions, and assessing the quality of a control structure over time. Establishing accountability requires management to develop a control structure for its operations. This audit report addresses concerns related to fiscal and legal accountability within the Judicial Branch (branch). Significant changes in branch operations occurred during our audit period, which created situations that could have been prevented or detected if the branch had implemented an appropriate control structure.

During the audit period, the administrative services function at the branch was under-staffed. Therefore, many controls that were in place could not be followed. Administrative services has a total of five FTE authorized. From January 2001 to May 2002 there were three vacant FTE. Two positions for acting administrator and court administration, accounting, and payroll were filled. Consequently, there were instances where controls were in place but not followed adequately enough to detect and correct errors. One control that was not followed was monitoring budgets. With adequate monitoring of expenditures and budget authority, many of the errors noted in this report, such as overspending appropriations and recording invalid accruals, could have been avoided. In other instances, developing controls over monitoring travel advances and reimbursements would have detected travel errors. Other controls could have been implemented to ensure reimbursements to the counties were timely.

The branch has hired qualified individuals to fill administrative vacancies and is working on improving its control structure. It has developed new policies and procedures for the larger organizations created by district court assumption. We provided recommendations to address individual issues discussed later in this report. However, the branch should design and implement an adequate control

Findings and Recommendations

structure to ensure errors are prevented or detected and corrected in a timely manner.

Recommendation #1

We recommend the branch implement a financial management control structure to assure financial accountability and compliance with state policies and laws.

Appropriations

Section 17-8-103, MCA, makes it unlawful to spend amounts in excess of appropriations. An appropriation is an authorization by the legislature for an agency to spend a specified amount. In two instances, discussed below, the branch overspent appropriations and did not seek valid budget amendments or program transfers. There is also an instance where the branch was authorized specific funding for seven new law clerks, but did not charge the expenditures to the proper appropriation.

- ▶ During the 2000-2001 biennium, the branch received a restricted appropriation for imaging services. In June 2001, the branch received and paid invoices totaling \$8,592 for costs of telephone service, data networking, advertising costs, and minor equipment from the imaging services appropriation. Although these costs were valid expenses of the branch, they were not related to imaging services and should not have been charged to the restricted appropriation. The appropriations that should have been charged were fully spent.

Branch personnel stated that they were out of authority in the other appropriations and did not have time to obtain budget amendments. The bills needed to be paid so they used the appropriation authority that was available.

- ▶ The branch charged \$144,765 of expenditures related to the Boards and Commissions program to an appropriation in the Supreme Court program in fiscal year 2001-02. At fiscal year-end, the branch adjusted some of the expenditure records. After adjustments were made, expenditures were still overstated in the Supreme Court program and understated in the Boards and Commissions program by \$38,831.

Branch personnel stated there was insufficient appropriation authority in the Boards and Commissions program. They also

Findings and Recommendations

noted that during the audit period they were under-staffed and were unable to monitor budgets.

- ▶ The branch received a specific appropriation for seven additional law clerks in the Supreme Court Operations program in fiscal year 2001-02. During the year, the branch charged the salaries of the new law clerks to the Supreme Court Operations general appropriation, not the appropriation for the new law clerks. During the fiscal year-end period, the branch realized that the correct appropriation had not been charged and accrued expenditures for \$105,000 to the proper appropriation. Branch personnel stated that they recorded the accrual to keep the appropriation authority, but the actual expenditures were already recorded in another appropriation and were not eliminated. The accrual was invalid, and expenditures were overstated in the Supreme Court Operations program by \$105,000.

Recommendation #2

We recommend the branch limit charges to restricted appropriations to purposes specified in appropriation laws.

District Court Reimbursements

Section 3-5-901, MCA, requires the branch to reimburse counties for certain district court expenses. As of October 2002, the branch had not paid the last six months of fiscal year 2001-02 reimbursements. As of December 2002, the branch had paid all but the last two months of the reimbursements, leaving \$1,300,077 to be distributed for fiscal year 2001-02.

Section 17-8-242, MCA, requires payments to non-governmental units to be timely. If no date is specified in an agreement, payment is timely if paid within 30 days after receipt of a properly completed invoice. On July 1, 2002, the state assumed responsibility for district courts, which made the branch responsible for paying some district court vendors directly and reimbursing the counties for other costs. This means that the branch has 30 days from the date the district court gets a bill to pay the vendors without having to pay interest to the vendors.

Branch personnel stated the volume of transactions is more than was expected for the new district court expenses, and it is hard to process

Findings and Recommendations

all transactions in a timely manner. The branch should develop procedures to ensure timely payments under the tighter schedule imposed by state law for vendors.

Recommendation #3

We recommend the branch implement procedures to ensure vendor payments are made within time limits set by state law.

Travel Issues

The branch is responsible for monitoring and processing travel claims for district court judges and other staff. The judges are responsible for signing and submitting their travel claims.

State employee travel is regulated through Montana Operations Manual 1-0300, and sections 2-18-501 through 2-18-503, MCA. We noted instances during our audit period where the branch was not in compliance with state policy related to travel reimbursements. The following are issues of non-compliance noted during our audit:

- ▶ State policy states individuals are not entitled to reimbursement for travel vouchers submitted three months after expenses are incurred. Three travel claims were submitted and paid for expenses that were incurred more than three months prior to submission.
- ▶ An airplane ticket was paid for twice. An advance was issued for the ticket and the expense of the ticket was later reimbursed as a claim on a travel voucher.
- ▶ A claim for dinner was paid although the meal was provided as part of a conference.

Branch personnel stated that it is branch procedure to pay claims when they come in even if it is over the three-month limit. Personnel stated they rely on the judges to fill the claims out properly, since they do not have procedures in place to monitor those expenditures.

Recommendation #4

We recommend the branch implement procedures to ensure compliance with state laws and policies regarding travel.

Findings and Recommendations

Interentity Loan

Section 17-2-107 (2), MCA, states when an expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient, a temporary loan may be authorized.

The branch originally recorded expenditures related to a federal grant in the General Fund. When the appropriation was exhausted in the General Fund, the remaining expenditures were recorded in the State Special Revenue Fund. The branch also recorded a \$150,000 accrual in the Federal Special Revenue Fund for these expenditures.

Personnel stated that they did not think they had enough cash in the Federal Special Revenue Fund to pay for the expenditures. This caused expenditures in the State Special Revenue Fund to be overstated by \$50,000 and expenditures in the Federal Special Revenue Fund to be overstated by \$100,000. Since the expenditures were valid federal grant expenditures, they should have been paid from the Federal Special Revenue Fund. The branch should have obtained an interentity loan to avoid accounting errors.

Recommendation #5

We recommend the branch obtain interentity loans as necessary to record expenditures in the proper fund.

Federal Expenditures

Section 17-2-102, MCA, states that the Federal Special Revenue Fund consists of money deposited in the treasury from federal sources and used in support of federal programs. We noted instances where the branch did not record activity in the proper fund. Federal regulations require that federal expenditures be adequately supported by the accounting records.

The branch received a federal grant to help plan and pay for a training conference. Expenses were originally paid using an unauthorized non-treasury checking account, which was not recorded on the state's accounting records. Expenses related to the conference were also paid from the General Fund and a State Special Revenue Fund. In total, \$33,480 was spent related to the federal grant. The

Findings and Recommendations

branch billed and was reimbursed \$29,948 from federal sources, which was deposited in the State Special Revenue Fund. Of this reimbursement amount, \$4,400 related to expenditures in the unrecorded checking account. The remaining \$3,532 that was not reimbursed also related to expenditures in the checking account. None of the activity related to the grant was recorded in the Federal Special Revenue Fund.

Recommendation #6

We recommend the branch:

- A. Ensure costs billed to the federal government are supported by the state's accounting records.**
- B. Record federal grant activity in the Federal Special Revenue fund as required by state law.**

Accounting Issues

State law requires the branch to record all necessary transactions before the end of the fiscal year to present the receipt, use and disposition of all money and property for which it is accountable in accordance with generally accepted accounting principles. The Department of Administration establishes state accounting policy to implement this law. The following sections describe errors in the branch's accounting records.

Unrecorded Activity

We found four instances where the branch administered accounts or bought items on behalf of other organizations. This activity was not recorded on the state's accounting records.

- ▶ The Montana Judges' Association is a non-profit corporation. Judges in the association pay dues into a revolving account. This money is then used to fund continuing education for the judges. Employees at the branch assist in tracking the money in the revolving account and in planning the continuing education courses. One employee has control of the checkbook for the account and is authorized to pay bills as directed by officers of the association. Another branch employee prepares a treasury report for the association. The revolving fund had a \$10,637 balance at June 30, 2002. This activity was not recorded on the state's accounting records. A Supreme Court official said that

Findings and Recommendations

branch involvement with administration of this account appears to have started years ago, but is not appropriate. The branch no longer handles the Montana Judges' Association account.

- ▶ In addition to the account discussed above there is a separate five-state training account. Once every five years, Montana hosts a five state training conference. The Montana Judicial Branch put on training in June of 2001. Branch employees are responsible for the funds and assist in planning the training. During fiscal years 2000-01 and 2001-02 there were expenses totaling \$16,880 and \$10,818, respectively, relating to this checking account that were not recorded on the state's accounting records.
- ▶ The branch held a training class for Court Appointed Special Advocate (CASA) volunteers. The costs associated with the class were reimbursed by the federal government to the branch. The branch was responsible for paying for travel vouchers, room reservations, and other miscellaneous costs. When recording the activity the branch used balance sheet accounts that offset each other so that when transactions were complete there was no record of the activity on the accounting records. Total expenditures for the training were \$4,856.
- ▶ The branch purchases computers for counties. In some cases, counties reimburse the branch for these purchases. To record the activity, the branch uses accounts receivable and vouchers payable. There are no revenues or expenditures recorded; therefore, the activity is not reflected on the financial schedules.

Branch personnel did not believe they had the authority to keep these funds or record the activity because they belong to outside parties. However, since branch employees accepted responsibility for organizing the activities and for administering the accounts, the activity should be recorded on the state's accounting records.

Revenue Accrual

In fiscal year 1998-99 the Department of Administration recorded a receivable, on the branch's accounting records, relating to county collection reports for amounts that affected the branch. When the branch attempted to reverse the accrual in fiscal year 1999-00, the transaction was coded to the incorrect fiscal year. Attempts to correct the errors in fiscal year 2000-01 resulted in recording revenues in the amount of \$372,703, and leaving the receivables on

Findings and Recommendations

the accounting records. Branch personnel knew that they were not going to receive the money and were attempting to correct the accounting records. However because of mistakes, receivables at June 30, 2001, and revenues for fiscal year 2000-01 were both overstated by \$372,703.

Revenue Estimates

Prior to fiscal year 2001-02 the branch received vehicle license fees from counties to fund district court reimbursements. In fiscal year 2001-02 the branch received a General Fund transfer authorized by Chapter 574, Laws of 2001, to fund the reimbursements. The branch recorded revenue estimates for this funding when it was not necessary to do so. The branch also made errors in recording other revenue estimates. This caused an overstatement of estimated revenues on the financial schedules for fiscal year 2001-02 in the amount of \$23,518,497. Branch personnel were not aware these errors existed.

Recommendation #7

We recommend the branch develop procedures to:

- A. Record the financial activity of entities for which it is accountable on the state's accounting records.**
- B. Ensure activity is recorded in accordance with generally accepted accounting principles.**
- C. Ensure revenue estimates are reasonable and properly recorded.**

Independent Auditor's Report & Branch Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Judicial Branch for each of the fiscal years ended June 30, 2002, and 2001. The information contained in these financial schedules is the responsibility of the branch's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the branch's assets, liabilities, and cash flows.

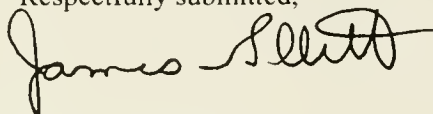
The branch made errors in recording revenue estimates. As a result, Estimated Revenues & Transfers-In in Licenses and Permits are overstated by \$23,518,497 on the Schedule of Total Revenues & Transfers-In for fiscal year 2001-02.

The branch made errors in recording revenue in the Special Revenue Fund. These errors caused License and Permit revenues to be overstated by \$372,708 on the Schedule of Total Revenues & Transfers-In for fiscal year 2000-01. The June 30, 2001, fund balance is overstated on the Schedules of Changes in Fund Balances by the same amount.

The branch did not properly record expenditures in two programs. Operating expenditures were overstated by \$281,164 in Supreme Court Operations and understated by \$38,831 in Boards and Commissions in fiscal year 2001-02 on the Schedule of Total Expenditures & Transfers-Out. The June 30, 2002, fund balances on the Schedule of Changes in Fund Balances were understated by a total of \$122,281 in the General Fund and \$252,651 in the Special Revenue Fund.

In our opinion, except for the matters discussed in paragraphs four, five, and six, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Judicial Branch for each of the fiscal years ended June 30, 2002, and 2001, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett", with a stylized flourish at the end.

James Gillett, CPA
Deputy Legislative Auditor

December 13, 2002

JUDICIAL BRANCH
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Enterprise Fund</u>
FUND BALANCE: July 1, 2001	\$ <u>(369,139)</u>	\$ <u>64,227</u>	\$ <u>(6,623)</u>
ADDITIONS			
Budgeted Revenues & Transfers-In	719,212	1,372,832	47,200
NonBudgeted Revenues & Transfers-In	2,890	5,846,171	
Prior Year Revenues & Transfers-In Adjustments	280	20,076	
Direct Entries to Fund Balance	<u>8,569,890</u>	<u>467,635</u>	
Total Additions	<u>9,292,272</u>	<u>7,706,714</u>	<u>47,200</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	9,504,968	7,806,318	43,090
Prior Year Expenditures & Transfers-Out Adjustments	<u>19,972</u>	<u>(13,911)</u>	
Total Reductions	<u>9,524,940</u>	<u>7,792,407</u>	<u>43,090</u>
FUND BALANCE: June 30, 2002	\$ <u><u>(601,807)</u></u>	\$ <u><u>(21,466)</u></u>	\$ <u><u>(2,513)</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIAL BRANCH
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Enterprise Fund</u>
FUND BALANCE: July 1, 2000	\$ <u>(438,416)</u>	\$ <u>(443,528)</u>	\$ <u>2,937</u>
ADDITIONS			
Budgeted Revenues & Transfers-In	751,051	7,197,168	31,425
NonBudgeted Revenues & Transfers-In	4,622	189,640	
Prior Year Revenues & Transfers-In Adjustments	7,763	143,777	
Direct Entries to Fund Balance	7,697,234	441,542	133
Total Additions	<u>8,460,670</u>	<u>7,972,127</u>	<u>31,558</u>
REDUCTIONS			
Budgeted Expenditures & Transfers-Out	8,443,288	7,515,860	41,118
Prior Year Expenditures & Transfers-Out Adjustments	<u>(51,895)</u>	<u>(51,488)</u>	
Total Reductions	<u>8,391,393</u>	<u>7,464,372</u>	<u>41,118</u>
FUND BALANCE: June 30, 2001	\$ <u><u>(369,139)</u></u>	\$ <u><u>64,227</u></u>	\$ <u><u>(6,623)</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIAL BRANCH
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Licenses and Permits	\$ 98,130	\$ (39,761)		\$ 58,369
Taxes	1,277	430		1,707
Charges for Services	611,404	1,018,763		1,630,167
Rentals, Leases and Royalties	9,958			9,958
Miscellaneous	1,613	46,527	\$ 47,200	95,340
Other Financing Sources		5,742,983		5,742,983
Federal		470,137		470,137
Total Revenues & Transfers-In	722,382	7,239,079	47,200	8,008,661
Less: Nonbudgeted Revenues & Transfers-In	2,890	5,846,171		5,849,061
Prior Year Revenues & Transfers-In Adjustments	280	20,076		20,356
Actual Budgeted Revenues & Transfers-In	719,212	1,372,832	47,200	2,139,244
Estimated Revenues & Transfers-In	810,000	26,303,700	49,500	27,163,200
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (90,788)	\$ (24,930,868)	\$ (2,300)	\$ (25,023,956)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Licenses and Permits	\$ 3,130	\$ (23,518,497)		\$ (23,515,367)
Charges for Services	(97,876)	(1,258,857)		(1,356,733)
Rentals, Leases and Royalties	3,958	(104,948)	\$ (2,300)	3,958
Miscellaneous		(48,566)		(107,248)
Federal		(24,930,868)		(48,566)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (90,788)	\$ (24,930,868)	\$ (2,300)	\$ (25,023,956)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIAL BRANCH
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	General Fund	Special Revenue Fund	Enterprise Fund	Total
Licenses and Permits	\$ 95,000	\$ 6,334,505		\$ 6,429,505
Taxes	1,316	775		2,091
Charges for Services	646,426	936,484		1,582,910
Rentals, Leases and Royalties	17,388			17,388
Miscellaneous	3,306	24,683	\$ 31,425	59,414
Federal		234,138		234,138
Total Revenues & Transfers-In	763,436	7,530,585	31,425	8,325,446
Less: Nonbudgeted Revenues & Transfers-In				
Prior Year Revenues & Transfers-In Adjustments	4,622	189,640		194,262
Actual Budgeted Revenues & Transfers-In	7,763	143,777		151,540
Estimated Revenues & Transfers-In	751,051	7,197,168	31,425	7,979,644
Budgeted Revenues & Transfers-In Over (Under) Estimated	987,412	7,740,607	26,000	8,754,019
	\$ (236,361)	\$ (543,439)	\$ 5,425	\$ (774,375)

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Licenses and Permits	\$ (95,000)	\$ 47,222	\$ (47,778)
Charges for Services	(152,749)	(384,608)	(537,357)
Rentals, Leases and Royalties	11,388		11,388
Miscellaneous		(70,000)	(64,575)
Federal		(136,053)	(136,053)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (236,361)	\$ (543,439)	\$ (774,375)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIAL BRANCH
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT

	BOARDS AND COMMISSIONS	CLERK OF COURT	DISTRICT COURT OPERATIONS	DISTRICT COURT REIMBURSEMENT	LAW LIBRARY	SUPREME COURT OPERATIONS	WATER COURTS SUPERVISION	Total
Personal Services								
Salaries	\$ 63,282	\$ 204,304	\$ 3,434,826	\$ 36,004	\$ 257,871	\$ 2,106,452	\$ 438,541	\$ 6,541,280
Other Compensation	16,194	53,488	5,117	9,302	67,853	644,444	122,430	5,117
Employee Benefits	79,476	257,792	4,724,459	45,306	325,724	2,750,896	560,971	2,198,227
Total								8,744,624
Operating Expenses								
Other Services	72,936	2,342	49,047	961	99,536	643,879	3,007	871,708
Supplies & Materials	19,372	9,798	72,678	94	43,766	261,720	9,449	416,877
Communications	13,190	13,969	14,813	1,032	9,154	47,337	27,635	127,130
Travel	55,573	4,054	145,397		5,152	138,379	5,432	353,987
Rent	677	4,409	4,253		83	256,551	38,542	304,515
Repair & Maintenance	14	1,211	2,871	104	1,975	52,147	4,305	62,627
Other Expenses	10,031	5,407	82,682		13,959	64,160	5,672	181,911
Total	171,793	41,190	371,741	2,191	173,625	1,464,173	94,042	2,318,755
Equipment & Intangible Assets								
Equipment					329,470	41,032		370,502
Total					329,470	41,032		370,502
Grants								
From State Sources				5,695,545		231,011		5,926,556
Total				5,695,545		231,011		5,926,556
Total Expenditures & Transfers-Out	\$ 251,269	\$ 298,982	\$ 5,096,200	\$ 5,743,042	\$ 828,819	\$ 4,487,112	\$ 655,013	\$ 17,360,437
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund	\$ 251,269	\$ 298,982	\$ 5,096,200	\$ 5,743,042	\$ 785,729	\$ 3,092,760	\$ 655,013	\$ 9,524,940
Special Revenue Fund					43,090	1,394,352		7,792,407
Enterprise Fund					828,819	4,487,112		43,090
Total Expenditures & Transfers-Out	251,269	298,982	5,096,200	5,743,042	828,819	4,487,112	655,013	17,360,437
Less					2,571	(9,123)		6,060
Prior Year Expenditures & Transfers-Out Adjustments	2,575	298,982	10,037	5,743,042	826,248	4,496,235	655,013	17,354,377
Actual Budgeted Expenditures & Transfers-Out	248,694	298,982	5,086,163	6,422,673	836,806	5,031,461	676,771	19,375,892
Budget Authority	248,694	298,982	5,860,505	6,422,673	836,806	5,031,461	676,771	19,375,892
Unspent Budget Authority	0	0	774,342	679,631	10,558	535,226	21,758	2,021,515
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund		\$ 774,342		\$ 679,631	\$ 1,686	\$ 30,734	\$ 21,758	\$ 806,762
Special Revenue Fund						504,492		1,205,881
Enterprise Fund					8,872			8,872
Unspent Budget Authority	0	0	774,342	679,631	10,558	535,226	21,758	2,021,515

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIAL BRANCH
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT	BOARDS AND COMMISSIONS	CLERK OF COURT	DISTRICT COURT OPERATIONS	DISTRICT COURT REIMBURSEMENT	LAW LIBRARY	SUPREME COURT OPERATIONS	WATER COURTS SUPERVISION	Total
Personal Services								
Salaries	\$ 62,034	\$ 194,331	\$ 3,059,485	\$ 46,668	\$ 245,501	\$ 1,899,158	\$ 418,314	\$ 5,925,491
Other Compensation			16,644					16,644
Employee Benefits	15,962	48,398	1,168,736	11,138	65,066	561,988	116,528	1,987,816
Total	77,996	242,729	4,244,865	57,806	310,567	2,461,146	534,842	7,929,951
Operating Expenses								
Other Services	44,858	5,990	3,520	2,728	50,814	571,796	2,751	682,457
Supplies & Materials	19,896	5,813	45,698	440	48,142	377,965	9,552	507,506
Communications	10,865	14,510	2,154	1,405	9,163	47,135	26,898	112,130
Travel	43,818	2,634	141,188		7,556	150,157	6,750	352,103
Rent	700	4,491	491			283,661	35,778	325,121
Repair & Maintenance	105	348	10,141		10,599	20,457	3,991	45,641
Other Expenses	9,020	887	30,163		14,668	116,614	7,307	178,659
Total	129,262	34,673	233,355	4,573	140,942	1,567,785	93,027	2,203,617
Equipment & Intangible Assets								
Equipment								
Total					227,482			227,482
Grants								
From State Sources						184,908		5,535,833
Total						184,908		5,535,833
Total Expenditures & Transfers-Out	\$ 207,258	\$ 277,402	\$ 4,478,220	\$ 5,413,304	\$ 678,991	\$ 4,213,839	\$ 627,869	\$ 15,896,883
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund	\$ 207,258	\$ 277,402	\$ 4,478,220	\$ 5,413,304	\$ 637,873	\$ 2,790,640	\$ 627,869	\$ 8,391,393
Special Revenue Fund						1,423,199		7,464,372
Enterprise Fund					41,118			41,118
Total Expenditures & Transfers-Out	207,258	277,402	4,478,220	5,413,304	678,991	4,213,839	627,869	15,896,883
Less:								
Prior Year Expenditures & Transfers-Out Adjustments	2,029		1,112	(56,590)	757	(50,572)	(119)	(103,383)
Actual Budgeted Expenditures & Transfers-Out	205,229	277,402	4,477,108	5,469,894	678,234	4,264,411	627,988	16,000,266
Budget Authority	215,832	277,402	4,491,993	5,469,894	709,367	4,391,893	649,468	16,205,849
Unspent Budget Authority	10,603	0	14,885	0	31,133	127,482	21,480	205,583
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	\$ 10,603	\$ 0	\$ 14,885	\$ 0	\$ 25,251	\$ 35,602	\$ 21,480	\$ 86,341
Special Revenue Fund						91,880		113,360
Enterprise Fund					5,882			5,882
Unspent Budget Authority	10,603	0	14,885	0	31,133	127,482	21,480	205,583

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Judicial Branch

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2002

1. Summary of Significant Accounting Policies

Basis of Accounting

The Judicial Branch uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category. In applying the modified accrual basis, the branch records:

- ▶ Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
- ▶ Expenditures for valid obligations when the branch incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the branch to record the cost of employees' annual leave and sick leave when used or paid.

The branch uses accrual basis accounting for the Proprietary fund category. Under the accrual basis, as defined by state accounting policy, the branch records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the branch receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The 2001 Legislature modified the fund structure established in section 17-2-102, MCA, to implement the changes made to generally

Judicial Branch Notes to the Financial Schedules

accepted accounting principles by Governmental Accounting Standards Board Statement 34. These changes were effective July 1, 2001. The branch accounts are organized in funds according to state law applicable at the time the transactions were recorded. The branch uses the following funds:

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources, other than private purpose trusts or major capital projects that are legally restricted to expenditures for specific purposes. The branch's Special Revenue Funds include District Court Reimbursements, Renewable Resource Grants, Court Automation, Child Support, and Federal Grants.

Proprietary Fund Category

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the legislature intends that the branch finance or recover costs primarily through user charges; or (b) where the legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The branch's Enterprise Fund accounts for the law library searches and research.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The branch has authority to pay obligations from the statewide General Fund within its appropriation limits. The branch expends cash or other assets from the statewide fund when it pays General Fund obligations. The branch's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances at June 30, 2001, and June 30, 2002.

Judicial Branch Notes to the Financial Schedules

3. Expenditure Program (Subclass)

The program designations in the Schedules of Total Expenditures & Transfers-Out are based on the sub-class designation used when the expenditures were recorded.

4. Direct Entries to Fund Balance

Direct entries to fund balance in the General and Special Revenue Fund types include entries generated by the accounting system to reflect the flow of resources within individual funds shared by separate agencies.

5. General Fund Transfers

Chapter 574, Laws of 2001, amended section 61-3-509, MCA, related to the funding source for the reimbursement to the district courts. During fiscal year 2000-01, prior to this amendment, counties deducted 10 percent of the taxes on light vehicles and forwarded them to the branch. The branch recorded these monies on its accounting records as budgeted Licenses and Permits in the Special Revenue Fund. The change in law resulted in the branch receiving a non-budgeted Other Financing Source (i.e. an operating transfer-in) from the state's General Fund for \$5,742,983.

Agency Response

THE SUPREME COURT OF MONTANA

KARLA M. GRAY
CHIEF JUSTICE

215 NORTH SANDERS
P.O. BOX 203001
HELENA, MONTANA 59620-3001

TELEPHONE (406) 444-5490
E-MAIL kgray@state.mt.us
FAX (406) 444-3274

March 11, 2003

Mr. Scott Seacat, Legislative Auditor
Legislative Audit Division
Room 135, State Capitol
Helena, MT 59620

RE: Judicial Branch Audit

Dear Mr. Seacat:

I have reviewed the financial-compliance audit of the Judicial Branch for the two fiscal years ended June 30, 2002. On behalf of myself and the Judicial Branch, we appreciate the professionalism, thoroughness and dedication with which the audit was conducted.

The audit contains seven recommendations for improvement in the branch's operations. All of these recommendations address accounting and management controls and practices. As noted on page five of the audit, the branch's administrative services function was under-staffed during the audit period. I believe it is fair to say that the entire branch and, in particular, the existing administrative services staff, have been in a state of upheaval since the 2001 Legislature authorized the assumption of district court costs.

Your recommendations, and our concurrences and corrective actions, are summarized below:

Recommendation #1

We recommend the branch implement a financial management control structure to assure financial accountability and compliance with state policies and laws.

Response – WE CONCUR

The branch is working on improving its control structure by setting up processes to monitor budgets on a regular basis and to review invoices and advances to avoid duplicate payments. We have exceptional staff on board, and are requesting authority to hire additional FTE to better achieve compliance with this, and other, recommendations.

Recommendation #2

We recommend the branch limit charges to restricted appropriations to purposes specified in appropriation laws.

Response – WE CONCUR

In the future, the branch will only charge restricted appropriations with expenses as specified in appropriation laws. These errors occurred because staff did not have the resources to adequately monitor budgets and ensure that expenditures were charged to proper appropriations. In addition, the paperwork necessary to process a program transfer was not completed due to time constraints. It is a staff priority to ensure that only appropriate expenses are charged to restricted appropriations.

Recommendation #3

We recommend the branch implement procedures to ensure vendor payments are made within time limits set by state law.

Response – WE CONCUR

The branch is in the process of developing procedures to ensure vendor payments are made within time limits set by state law. The branch did fall behind in making vendor payments before and during the audit, but currently is making vendor payments within statutory time frames. The branch will continue to develop and implement procedures to ensure vendors are paid timely in the future.

Since the narrative preceding Recommendation #3 also addresses the former District Court Criminal Reimbursement Program (DCCRP) and state assumption, we think it appropriate to respond to those portions of the narrative even though they are largely outside the scope of Recommendation #3. Reimbursements to counties through the former DCCRP were, indeed, behind schedule. Now, reimbursements pursuant to state assumption of district courts are behind schedule. The volume of transactions—both pre-and post-assumption--combined with the complexity of the assumption legislation and efforts to have state assumption ready for implementation by July 1, 2002, resulted in slow turn around of reimbursements to the counties. The former DCCRP reimbursements have now been made, and the branch has made great strides in putting processes in place to address reimbursements under district court assumption. Indeed, we now are current on reimbursements under state assumption in all but one of the variable cost categories. The branch will continue to decrease turnaround time for county reimbursements until we are in compliance with state law and branch policies.

Recommendation #4

We recommend the branch implement procedures to ensure compliance with state laws and policies regarding travel.

Response – WE CONCUR

The branch has developed procedures to ensure compliance with state laws and policies regarding travel. The branch now has an internal policy that travel expense vouchers must be submitted within three months of incurring the expense and the policy has been communicated to all judicial branch personnel. Untimely submissions will not be paid. Additionally, administrative services staff will review travel claims and advances more thoroughly to ensure that duplicate payments do not occur.

Recommendation #5

We recommend the branch obtain interentity loans as necessary to record expenditures in the proper fund.

Response – WE CONCUR

The branch will obtain interentity loans as necessary to avoid accounting errors. These errors occurred because staff did not have the resources to adequately monitor budgets and cash balances. Additionally, paperwork necessary to process an interentity loan was not completed due to time constraints. In the future, the branch will obtain the loans as necessary.

Recommendation #6

We recommend the branch:

- A. Ensure costs billed to the federal government are supported by the state's accounting records.
- B. Record federal grant activity in the Federal Special Revenue fund as required by state law.

Response – WE CONCUR

The branch will ensure that federal costs are supported by the state's accounting records and recorded in the Federal Special Revenue fund. The branch has corrected the errors on the state accounting system and in the future will record federal grant activity as required by state law. As mentioned previously, resources were insufficient to adequately monitor financial activity and ensure compliance with state law.

Scott Seacat
Legislative Audit Division
page four

Recommendation #7

We recommend the branch develop procedures to:

- A. Record the financial activity of entities for which it is accountable on the state's accounting records.
- B. Ensure activity is recorded in accordance with generally accepted accounting principles.
- C. Ensure revenue estimates are reasonable and properly recorded.

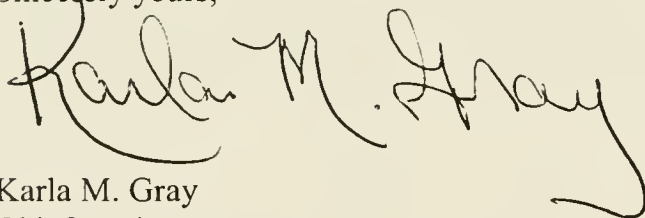
Response – WE CONCUR

The branch will ensure that appropriate financial activity is recorded on the state's accounting records, that it is recorded in accordance with generally accepted accounting principles and that revenue estimates are reasonable and properly recorded.

Subsequent to the audit, administration of the checking account for the Montana Judges' Association (MJA) has been turned over to the MJA and the five-state training account has been closed. In the future, the branch will not administer accounts for other organizations. Additionally, administrative services staff will review accounting transactions, revenue accruals and revenue estimates more thoroughly to ensure they are reasonable and properly recorded

Again, the members of your staff were a pleasure to work with and clearly represent the best in state employees. Judicial Branch staff are available to answer any questions or provide any further information that you or the Legislative Audit Committee may require and, of course, we will attend the committee meeting later this month.

Sincerely yours,

A handwritten signature in black ink that reads "Karla M. Gray". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

Karla M. Gray
Chief Justice

